BEING

A speech by

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Thank you, Mr Chancellor and good afternoon graduates, faculty, family and friends.

When I accepted the invitation to return to Queen's to address this year's graduating class, my immediate recollection was the time and effort involved in achieving a Masters degree. So my first instinct is to congratulate you on your successful completion of this endurance test. Your accomplishment goes far beyond endurance, of course, and I congratulate each and every one of you on the great sense of satisfaction you, and your families, must – and should - feel. Having earned your Masters, you truly understand the combined value of gaining knowledge and earning success. Believe me, this is a combination that will serve you well for the rest of your working and personal lives.

Dean Sanders invited me to speak to you today because I am a Queen's MBA grad, a CEO and most importantly, the son of a former Registrar. He thought I would have some insight to share and advice to offer. Well, the first piece of advice I have for you is that timing is everything. I took over the CEO reins from Claude Lamoureux at Teachers' late last year:

- The subprime crisis was just starting to wreak havoc, drying up credit markets, and soon spread like a virus to become the first major international financial crisis of the 21st century.
- Interest rates were diving, driving our pension liabilities up by billions.
- The loonie's flight to unexpected heights was tanking foreign investment values.

- We got the results of a major mortality study, which confirmed that our retired teachers are living longer and longer.
- And all this resulted in the fund registering a $12.7 billion shortfall

Do you think he knew something??!

Call it an opportunity, or call it a challenge, the reality is I cannot imagine a more invigorating time to be tackling my job. I hope the same will hold true for you.

My intention is to give you my perspective on the environment you will face, the challenges out there in the context of Teachers' and then end with some sage advice – after all, it is a Convocation address!!

In a recent media interview, the reporter asked about my background and career path. I told him I had graduated from Royal Military College in 1968, and had gone into the military, or what I refer to as the "family business," having grown up as an army brat on bases across Canada and Germany.

He asked me about my job as a communications officer in the signal corps. I explained that I facilitated communications between the senior command and the troops in the field – to ensure that no matter what the message or the location, that the radios were situated in such a way as to ensure the parties could maintain constant contact with each other.

I was reflecting on the interview later, and it struck me that that first job was not so entirely different from every position I have held since. In my current job, we have four parties – our employees, our pension plan members, the Ontario Teachers' Federation and the government. It's our job at the pension plan, to ensure that all of the parties understand the current state of the pension fund, and the implications for the present and future. And it's my job, as CEO, to ensure those communication lines are open at all times, whether it's about our investment program, demographic pressures, contribution rate and benefits demands or our strategic plans for the year.

And there is lots of information in those communication lines these days, as you can imagine. Especially where the market is concerned.

In the 91 years since the Ontario government established a pension plan for the province's teachers, the market has seen – and done – it all.

For example, when I graduated with my MBA in 1973, the Canadian economy was in recession. Watergate investigations were underway, the permanent Vietnam cease fire had been negotiated in Paris, and the OPEC oil crisis was in full swing, with oil reaching the lofty price of $4.15 per barrel which translated into 39 cents per gallon at the pump – yes we had gallons back then, litres had not been invented yet, but if they had that would have meant 9 cents per litre!!!!. The Dow Jones had just started flirting with breaking the 1000 mark, but quickly retreated to the mid-700s. Canada's first-ever peace time wage and price controls were about to be imposed because inflation would soon top 10 %.

How times have changed! And they will change just as dramatically – or more – over your career.

With that backdrop, let me say that, for anyone who has never experienced a downturn like the one caused by subprime and asset backed commercial paper, the sky may seem to be lower than it was last year at this time. Those of us who are veterans know that the end is not nigh, however.

Let me talk about that for a moment.

Every major financial crisis has followed the same pattern. Just look at them: Depression. Recession. Inflation. Stagflation. Tech boom. Tech bust. Bull market. Bear market. REITS. Savings and Loans. Asian crises. Long Term Capital. October ’87: First the markets were good. Then the markets were bad. Then the markets were good again.

The same indicators warned us of every looming crisis. And the same refrain was heard every time: “This time it’s different.”

Harvard’s Kenneth Rogoff and the University of Maryland’s Carmen Reinhart say the main indicators in large financial crises are the run-up of four key elements: asset prices, debt accumulation, growth patterns and current account deficits.

At Davos this year, the head of the European Central Bank reminded everyone he had said last year that risk was under-priced, and had cautioned of the US housing market bubble and the worrying proliferation of complex credit derivatives. I’m sure others said the same thing, but as we all know now, the louder claims were that “this time it’s different.”

Of course we all know it wasn't. Every financial market crisis we've endured since the 1929 crash started the same way: with over-exuberance. First – some supposedly smart whiz kids, many of them likely MBAs, decide to expose themselves by borrowing short and lending long. And second – over leverage, with a cavalier lack of concern about when the money-fairy would stop making deliveries.

All this to say that we can expect that the subprime crisis and its aftershocks will see history repeat itself yet again: There will be losses, there will be opportunities created, which will lead to a recovery, and there will once again be gains. The phase we're in right now is what I would characterize as a crisis of confidence. Our Chief Investment Officer Bob Bertram likens it to a massive margin call - a tsunami wave surging through the markets. Damage in low lying areas has been extensive.

In Canada, this "margin call" in turn caused the ABCP crisis. Its economic fallout was further compounded by its stunning collision with the soaring Canadian dollar and its subsequent impact on the value of foreign investments. What a year. No matter how clever or prepared our investment professionals might be, we can never know all of the surprises the market might have in store. Wells Fargo CEO John Stumpf put it well when he said: "It is interesting that the industry has invented new ways to lose money, when the old ways seemed to work just fine."

In times of market turmoil, especially, there are few better responses than to focus on the basics, and to concentrate on doing what one does well. At Teachers' we have been able to take advantage of opportunities already. For example, we were part of the consortium that recently recapitalized National City Bank in the US.

Now let me put this into the perspective of a long term investor – our pension plan fund. It is an example of Canadian leadership and how applying focused innovation to long term issues can really pay off.

Teachers' is the largest single-profession pension in Canada. We are an independent organization. In addition to investing the fund's assets, we administer the pensions of 278,000 active and retired teachers in Ontario. We have 700 employees.

And now a little history.

Pension funds have been well recognized institutional investors for many years, but for the most part, they have given their money to third parties to manage. It was the vision of Claude Lamoureux and Bob Bertram that the investment function could be managed as well, or better, in-house. It was a vision that changed the way pension plans the world over now invest their funds.

Go back to 1991, when Claude and Bob inherited the newly minted Ontario Teachers' Pension Plan. At that time, its $19 billion portfolio was 100% Ontario bonds.. I think everyone here realizes that one big stack of vanilla, one issuer, below market rate, non-marketable, bonds could not earn the returns necessary to support the inflation-indexed, defined benefit pensions of a growing number of pensioners.

So Bob and his team had to devise new investment plans and techniques – none of which had been undertaken by pension funds before – to put some diversity and its resulting heft into the fund.

As a result, Teachers' achieved many firsts. It was the first pension plan to use derivatives – in fact, Bob's investment shop sought and won the federal rulings that gave us all the right to use them. They introduced the swap market to Canada. They were the first to bring managed index funds inhouse and to use hedge funds. They also were the first pension plan to buy a major operating real estate company … and were early to invest in commodities, infrastructure and timber … and to build their own private capital team.

This innovative thinking has put teachers' and Canada at the forefront of pension management worldwide. Most Canadians have no idea that the rest of the world views Canada as the Centre of Excellence for pension funds.

But it is not all free sailing from here .Let me tell you a bit about the challenges I am now wrestling with.

Teachers live a long time. In fact in my office they are referred to as "The Immortals." Our new mortality tables tell us that teachers today work - and contribute a percentage of their salary (soon to be 12%) - for 26 years. Those who retire today are, on average, 57 years of age. They are expected to collect a pension worth about 60% of their income at retirement for 31 years, and a survivor will collect for an additional 5 years. Half of the teachers who retire this year will live at least into their 80s. Our oldest member is 106.

At Teachers' we're working within a new dynamic: the mature pension plan. This means we have a declining ratio of pension plan members who are contributing to the plan, to members who are collecting pensions. In our case the ratio is 1.6 working teachers for every retired teacher. In 1970 that ratio was 10 to 1.

With this shifting ratio of actives-to-retirees, contributions comprise a smaller percentage of the fund's value than ever before. In fact, we paid out more than twice as much in pensions as we collected in contributions last year. That's demographics.

So as you can see, we need to be creative about our investment programs. We've pioneered in the past and we'll continue to do so. And we'll do so within our long term parameters. We continue to comb the world for appropriate investments. The Canadian market is simply not big enough to satisfy our investment appetite.

If you look at our total equities portfolio – private and public – only one-third of our investments are in Canada. And our inflation sensitive assets can be found in Chile, Brazil, the UK, the US, and New Zealand, as well as other countries. And we co-invest with partners around the world – South Africa, Turkey, Hong Kong….I personally spent the early part of this week helicoptering all over Chile visiting our water distribution facilities there.

A lot of people have asked me lately – reporters, mostly – if the glory days of private equity deals are over. The answer is No. They will be back – maybe not to the same degree, given the former amount of leverage and the current cost of capital, but there will be very large deals again. The National City Bank re-cap I referred to earlier was a $7 billion deal led by a private equity fund. That's a start. More and larger deals will follow. One of the realities is that sluggish markets offer opportunities. And that, of course, spurs recoveries

I am not in any way trying to minimize the importance, the impact or the pain of the current credit crisis. What I am trying to do is to put it into historical perspective. Yes, it caused intense and widespread pain. But it has not brought the world to an end. Investors will regain their confidence and growth will return to slow economies.

Let's just hope that it does so with improved credit rating systems, more comprehensive due diligence and compensation packages that better mirror successes and failures.

As these examples illustrate, you are launching your post-MBA careers during an incredibly dynamic period. You're heading off in various directions to different industries and businesses, and with your own individual priorities.

In addition to the pension industry, I have worked in energy, real estate, merchant banking and hi-tech, in central and western Canada and for large and small operations, and I have seen a lot of the world. Every place I've worked, I've been fortunate to be able to build a team of strong individuals around me. And as I reflect on what we accomplished together and the lessons we taught each other, I realize that it always comes down to the same list of nine key criteria. It's my list of Nine Things I Promised My Parents I'd Never Forget … Here it is:

Number One: Be honest. With others and with yourself. The truth is a lot easier to remember … and to rationalize. The answer that is in your heart as well as your head is much easier to pursue.

Number Two: Be brave. Don't take the easy way out. Take risks. If you believe in a decision, make it. Don't wait for someone else and risk seeing the opportunity lost. By the same token, if you don't believe in something, be brave enough to say "no." You'll build your self-confidence, plus you'll never have to wonder 'what if I'd only had the courage to …" …

Number Three. Be grateful. There are very few things you will achieve without others' help. Let them know you appreciate it. If you do, chances are they'll be there for you the next time, too … but if you don't, you can bet they won't be …

Number Four: Be humble. Check your ego at the door and know that the team needs all of its members to roll up their sleeves and pull their weight. Only when you share the work, can you truly share the glory.

Number Five: Be ready. Get as close to the decision-making process as you can. See and understand what choices are available, how decisions get made, what factors really matter … and how it all gets weighed …and come prepared to play your "A" game at all times.

Number Six: Be open-minded. Good ideas are everywhere – every department, every location, every level - just waiting to be recognized and developed into great ideas.

Number Seven: Be curious. Ask questions. Poke around. Continue your education. Broaden your perspectives. Find out why things are done the way they are. You'll find the answer you're looking for …. As well as some you weren't… I have found that the most fulfilled people are those who are intellectually curious.

Number Eight: Be Passionate. I cannot think of anything worse than living and working without passion – if you are not passionate about what you are doing, get out! You will be doing yourself or those around you a big favour.

And that brings me to perhaps the most important point of all. They say you get hired for your talent and fired for your chemistry. The best way I know to keep the chemistry balanced is with this final point:

Number Nine: Be Generous: with your time, with your money, with your concern. Volunteer in your community. Help junior members of the team. Give a leg up to someone who's struggling. The success they enjoy as a result of the help you gave them will be some of the most meaningful rewards you'll ever receive.

And with that, I will "Be Finished."
Thank you for your attention and all the best to you for your future success.